

**Mid-Cumberland Community Services Agency**

**For the Year Ended  
June 30, 1998**

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Editor

April 26, 1999

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee  
and  
Board of Directors  
Mid-Cumberland Community Services Agency  
Nashville, Tennessee 37211

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Mid-Cumberland Community Services Agency, for the year ended June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ms  
98/105

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Mid-Cumberland Community Services Agency**  
For the Year Ended June 30, 1998

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
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**Audit Report**  
**Mid-Cumberland Community Services Agency**  
**For the Year Ended June 30, 1998**

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# **Mid-Cumberland Community Services Agency For the Year Ended June 30, 1998**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Mid-Cumberland Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

### **BACKGROUND**

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for the care of children and other citizens in the state.

The Mid-Cumberland Community Services Agency comprises the following counties: Cheatham, Dickson, Houston, Montgomery, Robertson, Rutherford, Stewart, Sumner, Trousdale, Williamson, and Wilson. The agency’s administrative offices are in Nashville, Tennessee.

The governing body of the Mid-Cumberland Community Services Agency is the board of directors. As of June 30, 1998, the board was composed of 13 members. (See Appendix.) An executive committee, consisting of six board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services subject to the approval of the board.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. The Mid-Cumberland Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act as amended.**

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Mid-Cumberland Community Services Agency



filed its report with the Department of Audit on October 1, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDING**

The current audit disclosed that the agency has corrected the previous audit finding concerning the agency's entering into a contract before the Plan of Operation was approved.

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## **OBSERVATIONS AND COMMENTS**

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During the audit period, the Mid-Cumberland Community Services Agency entered into contracts with the Departments of Children's Services and Health, specifying that the community services agency (CSA) would assist in implementing and/or operating various state programs. However, the departments' participation in these contracts was greater than indicated in the contracts. Through these contracts, state officials directly supervised CSA employees. And although these CSA employees' salaries, travel costs, and other program costs were paid by the CSA, the Departments of Children's Services and Health reimbursed the CSA for these costs, including the CSA's administrative costs for serving as a fiscal agent. These contracts appear to create "employer-employee" relationships between the departments and these individuals.

Programs under the supervision of the Department of Children's Services included Child Protective Service, Adoption Assistance, Foster Care, Juvenile Justice Services, and Family Crisis Intervention. According to the CSA organizational chart at the Department of Children's Services, CSA employees reported to Department of Children's Services supervisors. Some of these CSA employees were secretaries for the department's regional administrative staff.

Programs under the supervision of the Department of Health included Community Development and Children's Special Services Care Coordination. The programs were operated from the county or regional health offices with CSA staff and equipment. Department of Health employees supervised the CSA staff, and new CSA employees were either selected or approved by Department of Health supervisors. In some instances, the regional health director was responsible for operating the program.

The practice of allowing employees of non-state entities such as the community services agencies to report directly to officials or employees of the Departments of Children's Services and Health in carrying out what can be construed as state programs raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. Additionally, it is unclear as to whether *Tennessee Code Annotated*, Section 37-5-315(2), completely insulates the state from legal liability. The code states, "This part [Section 37-5-315] shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors; . . ." This legal concern arises from a review of the factors

commonly used in determining the existence of an employer-employee relationship. These factors include, most importantly, an entity's or individual's right to hire or fire and the right to control the performance of a job or work.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various state departments. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer and costs of travel, supplies, and equipment used by the administrative staff.

The most recent audits on the Departments of Children's Services and Health include an audit finding on these inappropriate contracts with the Mid-Cumberland Community Services Agency and other CSAs serving the departments.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### **Internal Control Over Financial Reporting**

As part of the audit of the agency's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### **Compliance**

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### **Fairness of Financial Statement Presentation**

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Mid-Cumberland Community Services Agency.

**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

October 30, 1998

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Mid-Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance that we have reported to the agency's management in a separate letter.

The Honorable W. R. Snodgrass  
October 30, 1998  
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ms

## **Independent Auditor's Report**

October 30, 1998

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying combined balance sheets of the Mid-Cumberland Community Services Agency, a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended and the statement of changes in assets and liabilities of the agency fund for the year ended June 30, 1998. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

The Honorable W. R. Snodgrass  
October 30, 1998  
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mid-Cumberland Community Services Agency as of June 30, 1998, and June 30, 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Schedule of Pension Funding Progress for Mid-Cumberland Community Services Agency is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 1998, on our consideration of Mid-Cumberland Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ms

MID-CUMBERLAND COMMUNITY SERVICES AGENCY  
COMBINED BALANCE SHEETS  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998					June 30, 1997				
	Governmental Fund Type	Fiduciary Fund Type	Account Groups			Governmental Fund Type	Fiduciary Fund Type	Account Groups		
	General Fund	Agency Fund	General Fixed Assets	General Long-term Obligations	Totals (Memorandum Only)	General Fund	Agency Fund	General Fixed Assets	General Long-term Obligations	Totals (Memorandum Only)
<u>Assets and Other Debit:</u>										
Assets:										
Cash (Note 2)	\$ 361,310.88		\$	\$	\$ 361,310.88	\$ 282,826.21		\$	\$	\$ 282,826.21
Investments		67,683.97			67,683.97		53,099.65			53,099.65
Prepaid items	12,216.16				12,216.16	16,333.04				16,333.04
Accounts receivable	17,528.33				17,528.33	62,698.56				62,698.56
Due from primary government (Note 3)	431,989.02				431,989.02	241,479.97				241,479.97
General fixed assets (Note 4)										
Furniture and equipment			278,429.58		278,429.58			275,963.87		275,963.87
Other debit:										
Amount to be provided for retirement of general long-term obligations (Note 5)				98,252.41	98,252.41				115,179.51	115,179.51
Total assets and other debit	\$ <u>823,044.39</u>	\$ <u>67,683.97</u>	\$ <u>278,429.58</u>	\$ <u>98,252.41</u>	\$ <u>1,267,410.35</u>	\$ <u>603,337.78</u>	\$ <u>53,099.65</u>	\$ <u>275,963.87</u>	\$ <u>115,179.51</u>	\$ <u>1,047,580.81</u>
<u>Liabilities, Other Credit, and Fund Balance</u>										
Liabilities:										
Accounts payable	\$ 320,088.13	\$	\$	\$	\$ 320,088.13	\$ 232,179.98	\$	\$	\$	\$ 232,179.98
Accrued payroll	163,033.74				163,033.74	155,719.23				155,719.23
Accrued payroll taxes and benefits	13,695.42				13,695.42	13,172.17				13,172.17
Accrued annual leave				98,252.41	98,252.41				115,179.51	115,179.51
Due to primary government (Note 3)	182,520.49				182,520.49	87,239.27				87,239.27
Due to other CSA	470.00				470.00					-
Amounts held in custody for others		67,683.97			67,683.97		53,099.65			53,099.65
Total liabilities	<u>679,807.78</u>	<u>67,683.97</u>	<u>-</u>	<u>98,252.41</u>	<u>845,744.16</u>	<u>488,310.65</u>	<u>53,099.65</u>	<u>-</u>	<u>115,179.51</u>	<u>656,589.81</u>
Other credit:										
Investment in general fixed assets (Note 4)			278,429.58		278,429.58			275,963.87		275,963.87
Fund balance:										
Reserved for prepaid items	12,216.16				12,216.16	16,333.04				16,333.04
Unreserved	<u>131,020.45</u>				<u>131,020.45</u>	<u>98,694.09</u>				<u>98,694.09</u>
Total other credit and fund balance	<u>143,236.61</u>	<u>-</u>	<u>278,429.58</u>	<u>-</u>	<u>421,666.19</u>	<u>115,027.13</u>	<u>-</u>	<u>275,963.87</u>	<u>-</u>	<u>390,991.00</u>
Total liabilities, other credit, and fund balance	\$ <u>823,044.39</u>	\$ <u>67,683.97</u>	\$ <u>278,429.58</u>	\$ <u>98,252.41</u>	\$ <u>1,267,410.35</u>	\$ <u>603,337.78</u>	\$ <u>53,099.65</u>	\$ <u>275,963.87</u>	\$ <u>115,179.51</u>	\$ <u>1,047,580.81</u>

The Notes to the Financial Statements are an integral part of this statement.

MID-CUMBERLAND COMMUNITY SERVICES AGENCY  
STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	General Fund	
	For the Year Ended June 30, 1998	For the Year Ended June 30, 1997
<u>Revenues</u>		
State grants and contracts	\$ 4,376,335.62	\$ 4,318,858.91
Private grants and contracts	172,980.53	244,442.54
TennCare Transportation contracts	210,016.26	212,071.36
Interest	18,746.95	22,191.77
Other	1,790.91	241.60
Total revenues	<u>4,779,870.27</u>	<u>4,797,806.18</u>
<u>Expenditures</u>		
Salaries and wages	2,606,821.65	2,626,499.17
Fringe benefits	581,476.99	604,208.99
Professional services	411,923.53	450,207.17
Specific assistance to individuals	26,977.88	18,794.29
Travel	212,663.58	170,660.33
Supplies	73,552.63	86,125.74
Postage and shipping	19,836.88	24,775.15
Printing	7,309.46	14,941.10
Telephone	107,899.76	118,118.58
Utilities	3,717.84	3,525.70
Insurance	8,085.96	8,898.77
Occupancy	277,776.21	276,029.36
Equipment rental and maintenance	183,695.67	171,841.03
Equipment purchases	8,069.96	14,088.79
Grants and subsidies	214,811.00	213,238.94
Other nonpersonnel expenses	7,041.79	6,064.50
Total expenditures	<u>4,751,660.79</u>	<u>4,808,017.61</u>
Excess (deficit) of revenues over (under) expenditures	<u>28,209.48</u>	<u>(10,211.43)</u>
Fund balance, July 1	<u>115,027.13</u>	<u>125,238.56</u>
Fund balance, June 30	\$ <u><u>143,236.61</u></u>	\$ <u><u>115,027.13</u></u>

The Notes to the Financial Statements are an integral part of this statement.



MID-CUMBERLAND COMMUNITY SERVICES AGENCY  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND  
FOR THE YEAR ENDED JUNE 30, 1998

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	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1998</u>
<u>Assets</u>				
Investments	\$ <u>53,099.65</u>	\$ <u>14,584.32</u>	\$ <u>-</u>	\$ <u>67,683.97</u>
<u>Liabilities</u>				
Amount held in custody for others	\$ <u>53,099.65</u>	\$ <u>14,584.32</u>	\$ <u>-</u>	\$ <u>67,683.97</u>

The Notes to the Financial Statements are an integral part of this statement.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 1998, and June 30, 1997**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

In May 1996, the Tennessee General Assembly replaced the community health agency (CHA) with the community services agency (CSA). Although the agency's mission changed from providing health care services to indigent citizens in the state to coordinating care for children and other citizens in the state, CHA employees, financial assets and obligations, and fund balances now belong to the CSA. The Mid-Cumberland CSA works in conjunction with the Tennessee Department of Children's Services to coordinate "funds or programs designated for care of children and other citizens in the state."

The legislation did not affect factors considered in determining reporting status. Title 37, Chapter 5 of *Tennessee Code Annotated* established the CSA as "a political subdivision and instrumentality of the state." The Mid-Cumberland Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA's governing body and approves the CSA's Plan of Operation (budget).

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Certain amounts presented for the preceding year have been reclassified for comparative purposes.

**Fund Structure, Basis of Accounting, and Measurement Focus**

The financial records of the Mid-Cumberland CSA are maintained on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

The general fund is presented using the flow of current financial resources measurement focus. The agency fund is custodial in nature and does not measure results of operations or have a measurement focus.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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The agency's accounts are organized and operated on the basis of fund types and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in that fund.

The agency's financial activities reported in the accompanying statements are classified into two fund types and two account groups:

Governmental Fund Type

General Fund—used to account for all resources not accounted for in another fund.

Fiduciary Fund Types

Agency Fund—used to account for *Internal Revenue Code*, Section 457, deferred compensation plan balances.

Account Groups

General Fixed Assets Account Group (GFAAG)—used to account for all the agency's fixed assets. The GFAAG is not a fund, but rather a management control and accountability listing of the agency's general fixed assets.

General Long-Term Obligations Account Group—used to account for capital leases and annual leave obligations. The General Long-Term Obligations Account Group is not a fund, but rather a separate set of self-balancing accounts that provides certain information about the agency's noncurrent liabilities.

**Totals (Memorandum Only)**

The total columns of the combined balance sheets are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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**Budgetary Process**

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

**Investments**

This classification consists of investments in the deferred compensation plan valued at fair value.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**NOTE 2. DEPOSITS**

The agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1998, the carrying amount of the agency's deposits was \$28,445.25, and the bank balance was \$69,468.96.

At June 30, 1997, the carrying amount of the agency's deposits was \$10,940.54, and the bank balance was \$49,992.55.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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The agency had \$332,615.63 on deposit at June 30, 1998, in the State of Tennessee Local Government Investment Pool administered by the State Treasurer and \$271,635.67 at June 30, 1997.

At June 30, 1998, and June 30, 1997, petty cash on hand was \$250.00.

**NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT**

June 30, 1998

Due From:

Department of Health—program funds	\$ 54,768.55
Department of Children's Services—program funds	286,982.40
Commission on Aging—program funds	85,563.23
Local Government Group Insurance	<u>4,674.84</u>

Total due from primary government	<u><u>\$431,989.02</u></u>
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Due To:

Department of the Treasury—retirement contributions	\$ 17,984.18
Department of Employment Security—unemployment taxes	1,578.59
Comptroller of the Treasury—audit fees	18,678.69
Department of Children's Services— leased equipment	144,254.03
Department of Health—Office of Vital Records	<u>25.00</u>

Total due to primary government	<u><u>\$182,520.49</u></u>
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June 30, 1997

Due From:

Department of Health—program funds	\$206,734.35
Department of Children's Services—program funds	32,271.00
Commission on Aging—program funds	733.44
Local Government Group Insurance	<u>1,741.18</u>

Total due from primary government	<u><u>\$241,479.97</u></u>
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Due To:

Department of the Treasury—retirement contributions	\$ 19,531.59
Department of Employment Security—unemployment taxes	1,866.21

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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Comptroller of the Treasury—audit fees	23,641.54
Department of Children’s Services— leased equipment	42,069.93
Department of Health—Office of Vital Records	<u>130.00</u>
Total due to primary government	<u><u>\$ 87,239.27</u></u>

**NOTE 4. GENERAL FIXED ASSETS**

General fixed assets are recorded at cost and are not depreciated. Donations are recorded at estimated fair value at the date of the donation.

The following changes in general fixed assets occurred during the year ended June 30, 1998:

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1998</u>
Furniture and equipment	<u>\$275,963.87</u>	<u>\$10,468.96</u>	<u>\$8,003.25</u>	<u>\$278,429.58</u>

The following changes in general fixed assets occurred during the year ended June 30, 1997:

	<u>Balance</u> <u>July 1, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 1997</u>
Furniture and equipment	<u>\$261,875.08</u>	<u>\$14,088.79</u>	<u>\$ -</u>	<u>\$275,963.87</u>

**NOTE 5. GENERAL LONG-TERM OBLIGATIONS**

The following changes in general long-term obligations occurred during the year ended June 30, 1998:

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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	<u>Balance</u> <u>July 1, 1997</u>	<u>Increases</u> <u>(Decreases)</u>	<u>Balance</u> <u>June 30, 1998</u>
Amount to be provided for retirement of general long-term obligations	<u>\$115,179.51</u>	<u>\$(16,927.10)</u>	<u>\$98,252.41</u>
Accrued annual leave	<u>\$115,179.51</u>	<u>\$(16,927.10)</u>	<u>\$98,252.41</u>

The following changes in general long-term obligations occurred during the year ended June 30, 1997:

	<u>Balance</u> <u>July 1, 1996</u>	<u>Increases</u> <u>(Decreases)</u>	<u>Balance</u> <u>June 30, 1997</u>
Amount to be provided for retirement of general long-term obligations	<u>\$94,940.94</u>	<u>\$20,238.57</u>	<u>\$115,179.51</u>
Accrued annual leave	<u>\$94,940.94</u>	<u>\$20,238.57</u>	<u>\$115,179.51</u>

**NOTE 6. OPERATING LEASES**

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$259,386.64 and \$173,833.88 for the year ended June 30, 1998, and were \$253,381.96 and \$166,103.71 for the year ended June 30, 1997. All leases for equipment except for the computer equipment leased from the State of Tennessee were noncancelable.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 1998:

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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Year Ending <u>June 30</u>	
1999	\$202,276.51
2000	38,391.55
2001	<u>526.00</u>
Total minimum payments required	<u><u>\$241,194.06</u></u>

**NOTE 7. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling 615-741-8202, ext. 101.

**B. Funding Policy**

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. A small number of employees whose contribution rate was greater than 5% prior to the adoption of a non-contributory system still contribute the excess over 5%. The agency is required to contribute an actuarially determined rate; the current rate is 5.99% of annual covered payroll. The agency contributed \$142,749.47 for the year ended June 30, 1998. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribu-



**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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tion requirements for the agency are established and may be amended by the TCRS' board of trustees.

**C. Annual Pension Cost**

The agency's annual pension cost of \$142,749.47 for fiscal year 1998 met the agency's required contribution.

The required contribution was determined as part of the June 30, 1995, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 7% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's initial benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Amortized book value is used for fixed-income securities. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 1995, was 23 years.

**Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 1997	\$145,676	100%	\$ -
June 30, 1998	\$142,749	100%	\$ -

Information is shown only for the years available. Additional years will be shown as they become available.

**NOTE 8. DEFERRED COMPENSATION PLAN**

The Mid-Cumberland Community Services Agency offers its employees a deferred compensation plan in accordance with *Internal Revenue Code*, Section 457. The plan, available to all agency employees, permits them to defer a portion of their

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency.

Section 457 plan balances have been reported as an agency fund in the financial statements. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the agency (without being restricted to the provisions of benefits under the plan), subject only to claims of the agency's general creditors. Participants' rights under the plan are equal to those of general creditors of the agency in an amount equal to the fair value of the deferred account for each participant. The agency has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The agency believes it is unlikely that it will use these assets to satisfy the claims of general creditors in the future.

**NOTE 9. CONTINGENCIES**

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$120,063.66 at June 30, 1998, and \$127,746.61 at June 30, 1997.

**NOTE 10. DONATED FACILITIES**

The Department of Health donates office space, utilities, telephone service, copiers, and computer use and computers to the Mid-Cumberland Community Services Agency. The value of the donation is not recorded in the financial statements.

**NOTE 11. RISK MANAGEMENT**

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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- A. The agency carries commercial insurance for risks of loss of its personal property, surety bond coverage for risks of employee dishonesty, and professional liability coverage for board members and directors. In the past three fiscal years, the agency has not had any claims filed with the commercial insurer.
- B. The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.
- C. The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or Prudential Health Care of Nashville. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee and three months with Prudential Health Care.

**NOTE 12. RELATED-PARTY TRANSACTIONS**

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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The following related-party transactions occurred during the year ended June 30, 1998, and June 30, 1997:

One of the members of the board of directors had an indirect relationship with a transportation services provider used by the agency. The amount paid to the transportation services provider was less than \$2,000 for the period July 1, 1996, through June 30, 1998.

In addition, the following related-party transaction occurred during the year ended June 30, 1998:

The contract between the agency and the Rutherford County Primary Care Clinic was terminated March 1, 1998, when the Director of Transportation Services was nominated to the board of directors for the Rutherford County Primary Care Clinic.

**NOTE 13. PRIOR-PERIOD RESTATEMENT**

The due from primary government for the State of Tennessee Commission on Aging was overstated by \$2,456.62 in the general fund of the agency's balance sheet as of June 30, 1997, and the state grants and contracts revenue and fund balance as of June 30, 1997, was overstated by \$2,456.62 on the statement of revenues, expenditures, and changes in fund balance. The balance sheet; the statement of revenue, expenditures, and changes in fund balance; and the due from primary government note (Note 3) presented in this report have been properly restated.

Mid-Cumberland Community Services Agency  
Required Supplementary Information  
Schedule of Pension Funding Progress

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Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/97	\$1,354	\$1,354	\$ -	100.00%	\$2,432	- %

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, to establish subsequent contribution rates. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's initial benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period.

## **APPENDIX**

### **MID-CUMBERLAND COMMUNITY SERVICES AGENCY**

Beverly G. Bass, Executive Director

#### **BOARD OF DIRECTORS**

##### Board Officers

Theodore White, Jr. – Chairman  
Julie C. Mills – Vice-Chairman  
Terri Parks – Secretary  
Janet Tabor – Treasurer

##### Executive Committee Members

Theodore White, Jr. – Montgomery County  
Julie C. Mills – Wilson County  
Janet Tabor – Cheatham County  
Terri Parks – Houston County  
David Asbury – Humphreys County  
Barbara Swader – Rutherford County

##### Other Members of the Board of Directors

Mary Todd Linville – Trousdale County  
Debra Byrd – Stewart County  
Brenda Hayden – Williamson County  
Luther Bratton – Sumner County  
Marie Mobley – Robertson County  
Betty Woodard – Dickson County  
Tim Florence – Department of Children's  
Services Representative